

**REPORT OF
FINANCIAL EXAMINATION**

**TEXAS COUNTY MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2003**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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April 30, 2004
Licking, Missouri

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

TEXAS COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 117 Main Street (P.O. Box 415), Licking, Missouri, telephone number (573) 674-3125.

This examination began on April 28, 2004, and was concluded on April 30, 2004, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1998, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1998, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Notes to the Financial Statements

Comment: It was recommended the Company request approval from the Missouri Department of Insurance to invest assets in not allowed by statute or sell the investments.

Company Response: The Company has taken the required measures to bring its investments into compliance.

Current Findings: The Company's investments appear to be in compliance with the applicable Missouri statutes.

Management

Comment: The Company was directed to comply with Section 380.381 RSMo (Board of Directors; Annual Meeting), which requires the minimum attendance of eight members at the annual meeting.

Company Response: The Company will meet the minimum quorum requirement at future annual meetings.

Current Findings: The Company met the quorum requirements at all annual meetings during the examination period.

Corporate Records

Comment: It was recommended the Company put more Company policies in writing.

Company Response: The Company will adopt manuals, which address the policies and procedures of the Company.

Current Findings: The Company has adequate written policies that address the business of the Company.

HISTORY

General

The Company was originally organized on May 30, 1904, as Texas County Farmers Mutual Fire and Lightning Insurance Company. The Company was incorporated on June 4, 1904. On January 12, 1985, the Company changed its name to Texas County Mutual Insurance Company. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately each month, and the directors are compensated \$80 per meeting attended.

Members serving on the Board of Directors as of December 31, 2003, were as follows:

| <u>Name and Address</u> | <u>Occupation</u> | <u>Term</u> |
|---|-------------------|-------------|
| Bobby Gentry, Jr. 524 West Highway 17 Houston, Missouri | Insurance Agent | 2001-2004 |
| Charles Van Zyverden P.O. Box C | Retired/Farmer | 2003-2006 |

Plato, Missouri

| | | |
|--|-----------|-----------|
| Gail Van Zyverden P.O. Box C Plato, Missouri | Homemaker | 2001-2004 |
|--|-----------|-----------|

| | | |
|--|---------|-----------|
| Ada L. Ingram 10338 Horner Drive Licking, Missouri | Retired | 2002-2005 |
|--|---------|-----------|

| | | |
|--|------------------------|-----------|
| Judith K. Goins 19868 Highway 32 Licking, Missouri | Company Office Manager | 2003-2006 |
|--|------------------------|-----------|

The Board of Directors elects for a term of one year a President, Vice-President, and Secretary/Treasurer.

The officers of the Company serving at December 31, 2003, were as follows:

| | |
|----------------------|---------------------|
| Bobby Gentry, Jr. | President |
| Charles Van Zyverden | Vice-President |
| Judith K. Goins | Secretary/Treasurer |

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On January 15, 1999, the Articles of Incorporation were amended to allow for the Company to write liability insurance and to change the annual membership meeting from the second Saturday in January to the second Tuesday in March. On March 12, 2002, the Articles of Incorporation were again amended, changing all references from “assessment” to “premium,” to facilitate the Company’s conversion from an assessable to a non-assessable mutual.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period

under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries directors' and officers' liability coverage with an annual aggregate limit of \$2,000,000 and a \$500 deductible for each director and officer each loss and a \$2,500 deductible in aggregate as it pertains to directors and officers liability.

The Company purchases errors and omissions insurance for one of its director/agents with an aggregate limit of \$1,000,000 and deductibles of \$1,000 each claim. The remaining director/agent and independent agents are required to purchase errors and omissions insurance and provide proof of coverage to the Company.

The Company has a commercial policy for its home office building and contents. The policy provides coverage of \$149,818 on the building and \$43,000 on office contents. The Company also maintains commercial liability coverage with a general aggregate limit of \$1,000,000 and medical expense limits of \$5,000 per person.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. The employees receive health insurance benefits, one to two weeks of annual leave based on years of service, and seven paid holidays per year. It appears the Company has made adequate provisions in its financial statements for the

employee benefit obligations.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverage.

The Company's policies are sold by two director/agents and twelve independent agents. All agents of the Company are licensed. Director/agents receive commissions of 20% on property policies and 15% on liability policies. Independent agents receive commissions of 15% on new business and 12% on renewal business.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms provided by the Missouri Association of Mutual Insurance Companies. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting functions are performed by the Company's inspector/adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

| | Admitted Assets | Liabilities | Gross Assessment | Gross Losses | Investment Income | Underwriting Income | Net Income |
|------|--------------------|-------------|---------------------|-----------------|----------------------|------------------------|-------------|
| 2003 | \$1,453,959 | \$361,854 | \$942,758 | \$888,126 | \$50,313 | \$(183,813) | \$(146,225) |
| 2002 | 1,676,376 | 141,346 | 572,032 | 454,434 | 65,221 | (111,556) | (53,023) |
| 2001 | 1,617,223 | 30,641 | 399,132 | 144,075 | 78,062 | (76,333) | 3,109 |
| 2000 | 1,648,709 | 25,237 | 308,112 | 139,909 | 81,023 | (27,596) | 53,968 |

| | | | | | | | |
|------|-----------|--------|---------|--------|--------|--------|---------|
| 1999 | 1,579,439 | 13,288 | 261,312 | 95,953 | 71,734 | 70,897 | 143,121 |
|------|-----------|--------|---------|--------|--------|--------|---------|

At year-end 2003, 2,072 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

| | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|---------|-----------------|-----------------|------------------|------------------|------------------|
| Direct | \$261,312 | \$308,112 | \$399,132 | \$572,032 | \$942,758 |
| Assumed | 0 | 0 | 0 | 0 | 0 |
| Ceded | <u>(41,334)</u> | <u>(64,874)</u> | <u>(106,392)</u> | <u>(134,211)</u> | <u>(203,894)</u> |
| Net | \$219,978 | \$243,238 | \$292,740 | \$437,821 | \$738,864 |

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under a single contract for fire, wind and liability risks.

The individual occurrence of loss section of the agreement covers fire and wind risks. The Company retains \$100,000 per loss occurrence, and the reinsurer is liable for the excess. The reinsurer's limits are \$500,000 on dwellings, livestock operations and commercial property and \$750,000 on farm outbuildings. Risks in excess of these limits are eligible for facultative coverage under the agreement. The premium rate in 2003 for the individual occurrence coverage was \$.1467 per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement also covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this

retention. The attachment point for 2003 was \$489,790, and the annual premium rate was \$.5561 per \$1,000 of adjusted gross fire risks in force.

Under the comprehensive personal liability and farmers comprehensive personal liability section of the agreement, the Company cedes 100% of liability risk and premium to the reinsurer and receives a 25% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. Grinnell Mutual Reinsurance Company performs an annual compilation of the Company's financial statements and prepares the Company's Annual Statement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2003

| | |
|--------------------------|--------------|
| Stocks | \$ 248,286 |
| Real Estate | 163,159 |
| Cash on Deposit | 995,504 |
| Other Investments | 7 |
| Premium Receivable | 1,313 |
| Reinsurance Recoverable | 38,453 |
| Computer Equipment | 1,295 |
| Interest Due and Accrued | 5,943 |
| | ----- |
| Total Assets | \$ 1,453,960 |
| | ===== |

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2003

| | |
|-------------------------------|--------------|
| Losses Unpaid | \$ 30,723 |
| Ceded Reinsurance Payable | 17,748 |
| Unearned Premium | 277,967 |
| Liability Write-ins | 35,417 |
| | ----- |
| Total Liabilities | \$ 361,854 |
| | ----- |
| Guaranty Fund | \$ 150,000 |
| Other Surplus | 942,106 |
| | ----- |
| Total Surplus | \$ 1,092,106 |
| | ----- |
| Total Liabilities and Surplus | \$ 1,453,960 |
| | ===== |

STATEMENT OF INCOME
December 31, 2003

| | |
|--------------------------------|--------------|
| Net Premium | \$ 829,403 |
| Net Losses Incurred | (440,044) |
| Other Underwriting Expenses | (573,172) |
| | ----- |
| Net Underwriting Income (Loss) | \$ (183,813) |
| | ----- |
| Investment Income | \$ 50,313 |
| Other Income | 7,206 |
| | ----- |
| Gross Income | \$ (126,294) |
| Federal Income Tax | (19,931) |
| | ----- |
| Net Income (Loss) | \$ (146,225) |
| | ===== |

CAPITAL AND SURPLUS ACCOUNT
December 31, 2003

| | |
|--|--------------|
| Policyholders' Surplus, December 31, 2002 | \$ 1,250,063 |
| Net Income (Loss) | (146,225) |
| Change in Unrealized Appreciation of Investments | (11,733) |
| | ----- |
| Policyholders' Surplus, December 31, 2003 | \$ 1,092,106 |
| | ===== |

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Texas County Mutual Insurance Company. during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.

My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance